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Governor Sean Parnell STATE OF ALASKA

January 28, 2014

The Honorable Charlie Huggins
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Huggins,

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill approving and ratifying the sale of royalty oil by the State of Alaska to Tesoro Refining and Marketing Company, LLC (Tesoro).

Tesoro's Nikiski refinery is the largest tax payer in the Kenai Peninsula Borough and supplies products to 31 company-owned Alaska retail outlets and 44 "branded" outlets operated by franchise owners. This legislation would allow Tesoro to continue supplying these outlets with fuel, which will help strengthen Alaska's growing economy. Tesoro is a key economic engine in Alaska and specifically the Kenai Peninsula, employing 200 Alaskans in full-time, high paying positions. The Nikiski refinery produces approximately two to three million gallons per day of refined petroleum products, mostly consumed in Alaska.

This bill would approve and ratify an "Amendment to the Agreement for the Sale of Royalty Oil." The amendment would extend the existing contract by one year, providing for the sale of the State's royalty oil to Tesoro Refining and Marketing Company, LLC, allowing for royalty oil deliveries to continue until January 31, 2016. The contract provides for sale of between 5,000 and 15,000 barrels per day of the State's royalty oil, subject to certain nomination provisions. The royalty oil will be sold at a price calculated to equal or exceed the value the State would obtain for the royalty oil if it was taken in-value and sold by the producers rather than taken in-kind and sold by the State to Tesoro.

The Alaska Royalty Oil and Gas Development Advisory Board reviewed the proposed amendment through a public hearing process and, in accordance with AS 38.06.050, issued a written recommendation on December 11, 2013 for the legislative approval of the sale. A copy of the agreement for the sale of royalty oil to be amended, the resolution recommending approval, and the report required by AS 38.06.070(c) are available from the Department of Natural Resources.

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Extending the 2013 Tesoro contract is in the State's best interest and is important to several hundred private-sector employees in the Kenai Peninsula Region, as well as the economy throughout the state of Alaska.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in blue ink that reads "Sean Parnell". The signature is written in a cursive style with a large, sweeping initial "S".

Sean Parnell
Governor

Enclosure